



Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,249	HCC IN
	REUTERS CODE
S&P CNX: 4,153	HCNS.BO

22 August 2007

Buy

Previous Recommendation: Buy

Rs118

Equity Shares (m)	274.3
52-Week Range	172/82
1,6,12 Rel. Perf. (%)	1/0/-19
M.Cap. (Rs b)	32.4
M.Cap. (US\$ b)	0.8

YEAR	NET SALES	PAT*	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	23,576	595	2.1	-35.3	55.4	3.3	6.1	6.6	1.9	20.3
3/08E	32,642	1,066	3.9	82.4	30.4	2.2	9.1	10.9	1.3	11.9
3/09E	44,425	2,027	7.4	90.2	16.0	2.0	13.3	14.1	1.1	8.8

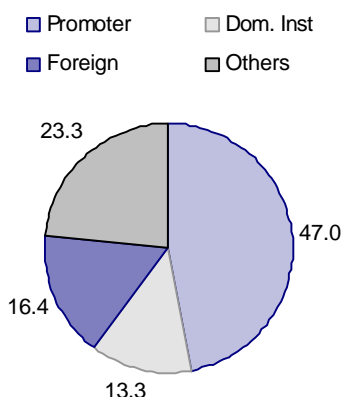
Lavasa site visit; key takeaways:

- ☞ **Phase I sales launched:** Lavasa Corp (60.5% subsidiary of HCC) has commenced soft launch of Phase 1 (1739 acres) at Rs2,450/sq.ft for Apartments and Rs2,950/sq.ft. for Villas. Loading, defined as excess of chargeable area over carpet area stands at ~37-38%. Full scale launch of the project is expected on Dussera (22nd Oct, 2007).
- ☞ **Phase I development to be completed by CY09:** Sale of residential units in phase 1 is expected to be completed over the next 18-24 months. Also, the educational institutes (academics to begin in 2009), hotels, convention centres, healthcare facilities, etc would also start operations by 2009. Currently, most of the regulatory approvals and basic infrastructure is largely in place. Lavasa Corp has till date invested Rs6.5b in terms of infrastructure development on this project.

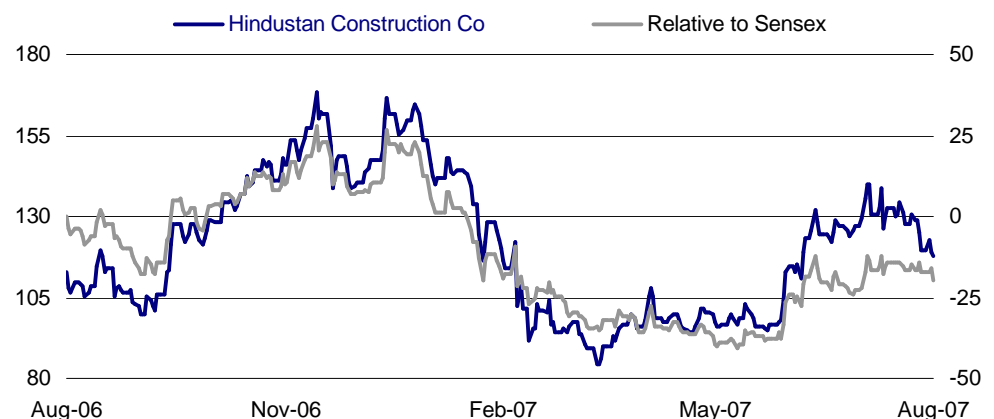
Lavasa - significant valuation upside exists: We currently value Lavasa assuming development of 5,000 acres (out of 12,500 acres) at Rs3.5m/acre, discount to benchmark price of Rs4.0-4.5m/acre based on initial sale of land for test marketing during June 06. This translates into NPV of Rs117/sq ft based on development area of 150msf. However, there exists significant upside potential, given the current launch price of Rs2,450-2,950/sq ft.

HCC - SOTP Based target price of Rs171/sh, Maintain Buy: We value core construction business at Rs111/sh (15x FY09E), Lavasa at Rs39/sh, Vikhroli Corporate park Rs7/sh (NPV), Slum Rehab projects at Rs6/sh (NPV) and other Land Banks at Rs9/sh (book value of investments till Mar 08). At CMP of Rs118, HCC trades at reported PER of 30.4x FY08E and 16x FY09E EPS. Adjusted for value of real estate (Rs60/sh), the stock trades at 16x FY08E and 8.3x FY09E EPS. Maintain **Buy**.

SHAREHOLDING PATTERN (JUN.07 - %)



STOCK PERFORMANCE (1 YEAR)



Lavasa visit: Key takeaways

Lavasa Corp (60.5% subsidiary of HCC) has commenced soft launch of apartments and villas of Phase 1 at Lavasa project. The key takeaways are:

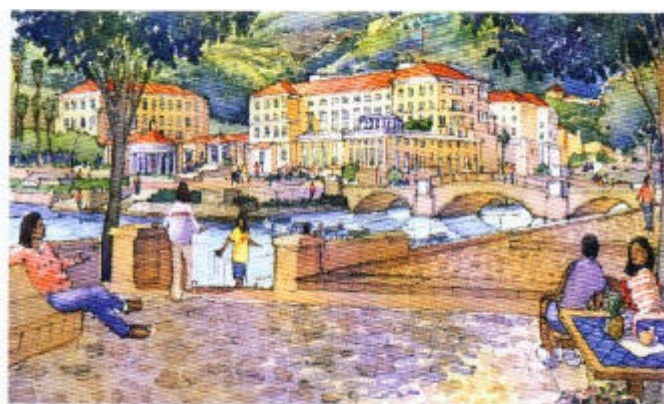
1) Phase I soft launch commenced: Lavasa Corp (60.5% subsidiary of HCC) has commenced soft launch of Phase 1 (1739 acres) at Rs2,450/sq.ft for Apartments and Rs2,950/sq.ft. for Villas. Loading, defined as excess of chargeable area over carpet area stands at ~37-38%. The company is developing apartments with built up area of 528sq.ft to 2,223sq.ft and Villas ranging from 2,060 sq.ft to 4,679 sq.ft. Full scale launch of the project is expected near Dussera (22nd Oct, 2007).

2) Lavasa Corp has entered into several tie-ups: It has entered into tie-ups for setting up Hospitality, Educational institutions, Healthcare facilities for the Phase 1.

✍ **Hospitality:** (1) **Sheraton:** For managing 250-room Hotel with 150,000 sq. ft. Convention Centre and 200-room resort, (2) **Accor:** for managing mid scale hotel under brand Novotel (150 rooms) and upscale hotel under brand Grand Mercure (250 rooms), (3) **ITC** for managing 60 room hotel and 4) **Ecole** Hotelier, Switzerland

✍ **Educational Institutes:** (1) **Symbiosis** Educational Institute (60 acres) and (2) **Girls Day School Trust**, UK (which manages 27 schools in UK, including Oxford School). Further, the company is also in discussions with Oxford University and Havard University for setting up educational institutes in Phase 1.

LAVASA (PHASE 1): ARTIST'S IMPRESSION



Source: Company

PORTOFINO APARTMENTS (UNDER CONSTRUCTION)



Source: Motilal Oswal Securities

TOWN HALL (LEFT) AND ITC HOTEL (RIGHT) UNDER CONSTRUCTION



Source: Motilal Oswal Securities

✍ **Healthcare: Apollo Hospital** (200 acres) for setting up 150 bed hospital and medical research and training institute.

3) Basic Infrastructure largely in place, Phase I development to be completed by end CY09: For development of Phase 1, most of the regulatory approvals and basic infrastructure like all weather approach road from Pune, internal roads within Phase 1, electrification, dams, water supply network including sewage treatment plants, etc is largely in place. Lavasa Corp has till date invested Rs6.5b in terms of infrastructure development on this project.

The apartments are conceived as four storey structures with ground and first floor reserved for commercial purpose (restaurants, retail, etc) and three floors for residential. As per the marketing plans, the company does not intend to sell plots, and thus all launches in future will be built up structures (apartments and villas).

Sale of residential units in phase 1 is expected to be completed over the next 18-24 months. Also, the various educational institutes (academics to begin in 2009), hotels, convention centres, healthcare facilities, etc would also start operations by 2009. Thus, the entire Phase 1 development is expected to be completed by end CY09.

ENTRY GATE AT LAVASA



INTERNAL ROADS



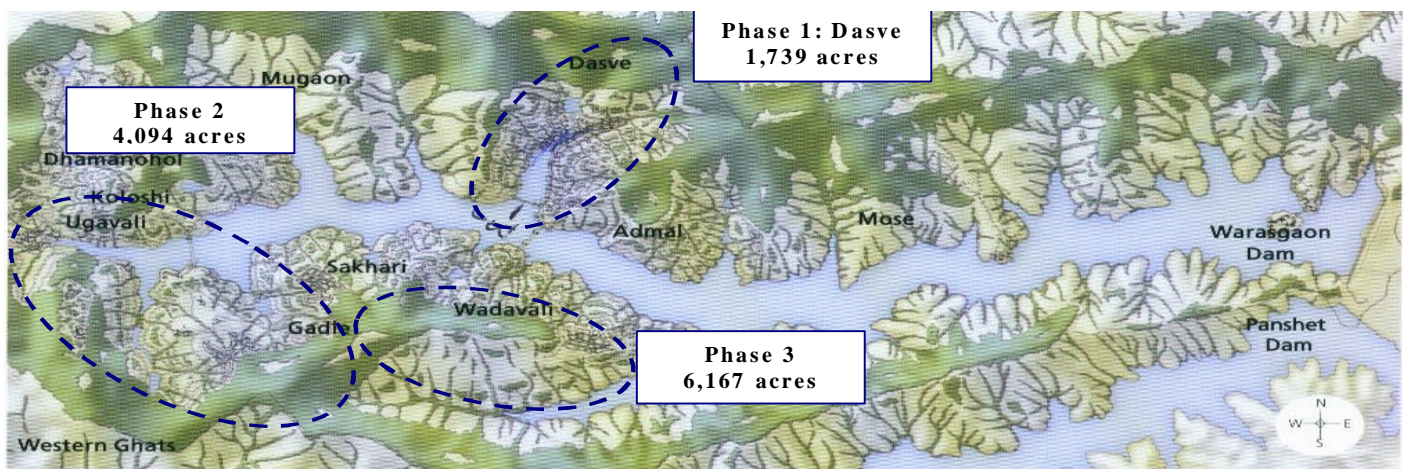
Source: Motilal Oswal Securities

4) Phase 2 development expected to start from 2010:

Development of Lavasa township is planned to be done in three phases, with Phase II development expected to start from 2010 onwards. Phase I involves development of 1,739 acres of land at Dasve as education, tourist and business destination. Phase II and III includes development of 4,094 acres and 6,167 acres of land respectively.

Of the 12,500 acres of land, the company has already acquired and registered ~8,500 acres in the name of Lavasa Corporation, while balance 4,000 acres has been contracted and is under various stages of acquisition. On completion of all phases, the project expects a permanent resident population of 100,000 and floating population (tourists) of 1m per annum.

LAVASA: DEVELOPMENT PLAN



Source: Company

Lavasa to attain self financing post Phase 1 development

Lavasa Corporation has spent Rs6.5b till June 07 on the development of the basic infrastructure facilities. The investment has been financed through debt Rs3.5b, equity Rs1.5b and land sale of Rs1.5b.

The total investment for phase 1 is estimated at Rs12b, which is likely to be funded through debt of Rs5b, equity Rs2.3b, land sale Rs1.5b and through strategic investor Rs3.0b. HCC is currently evaluating various options including private equity to raise financing.

Significant valuation upside exists

We have currently valued Lavasa project assuming development of 5000 acres (out of 12,500 acres, FSI of 0.4x) at Rs3.5m/acre. This is at a discount to the benchmark price of Rs4.0-4.5m/acre based on initial sale of land for test marketing during June 06. We thus arrive at a value of

Rs17.5b, which based on development area of 150msf, translates into an NPV of Rs117/sq ft. However, there exists significant upside potential, given the current launch price of Rs2450-2,950/sq ft and construction cost of ~Rs1,500/sq.ft (including land acquisition cost). This entails a gross profit of Rs1,000/sq ft+, and net profit at Rs700/sq ft+.

HCC: SOTP Based target price of Rs171/sh, Maintain Buy

HCC has a strong order book position of Rs93.8b (3.9x FY07 revenues) and is L1 in projects (roads, tunnel and bridge segments) worth Rs21.6b. We expect significant improvement in EBIDTA margins in FY08 driven largely by (1) Increased contribution from hydro power project (48% of order book), (2) Reduced losses on Bandra-Worli Sealink project, and (3) better cost apportionment (overheads, interest and depreciation) as projects enter revenue recognition threshold.

We expect HCC to report net profit of Rs1.1m during FY08 (up 79% YoY) and Rs2b in FY09 (up 90.2% YoY). Based on SOTP, we arrive at price target of Rs171. We value core construction business at Rs111/sh (15FY09E), Lavasa at Rs39/sh (5,000 acres at Rs3.5/acre vs past transactions of Rs4-4.5m/acre), Vikhroli Corporate park Rs7/ sh (NPV),

Slum Rehab projects at Rs6/sh (NPV) and other Land Banks at Rs9/sh (book value of investments expected till Mar 08). At CMP of Rs118, HCC trades at reported PER of 30.4x FY08 and 16x FY09. Adjusted for value of real estate (Rs60/sh), stock quotes at 16x FY08 and 8.3x FY09. **Maintain Buy.**

HCC SUM OF PARTS (RS/SH)

	BUSINESS SEG.	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
HCC Standalone	Construction	FY09E PER (x)	15	30,409	111	At par with industry average
Real Estate						
Lavasa*	Township	Land Value (Rs m/acre)	3.5	10,582	39	Out of 12,500 acres of land, 5,000 acres will be developed. Past transactions by Lavasa was at Rs4.0-4.5m/acre (land sale)
Vikhroli Land (11 acres)	Real Estate	NPV, Cost of Equity:15%		1,855	7	Based on NPV of expected rentals from office space
Vikhroli Land (Slum Rehabilitation - 15 acres)	Real Estate	NPV, Cost of Equity:15%		855	3	Based on NPV of expected cash flows
Powai Land (Slum Rehabilitation - 10 acres)	Real Estate	NPV, Cost of Equity:15%		695	3	Based on NPV of expected cash flows
Other Land Banks	Real Estate	Book Value		2,500	9	Book value of Investments as at March 2008
Total				46,896	171	

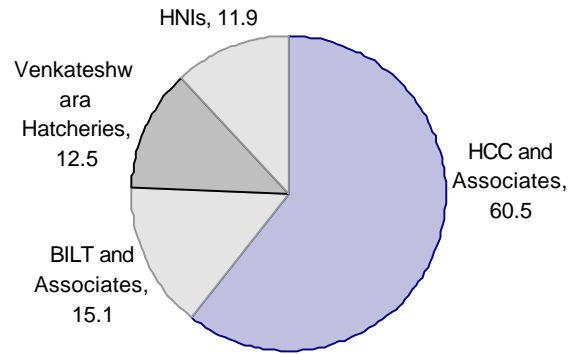
*We do not factor in the land development profit at Lavasa

Source: Motilal Oswal Securities

Appendix: Lavasa Project

Lavasa project is the development of India’s first hill-station township spread over 12,500 acres located between Mumbai and Pune in Maharashtra. The town planning is being done by HOK, USA. The project is planned to create a self contained township offering facilities in the fields of recreation, education, commerce and housing. The project is situated in proximity to Warsgaon Dam, and is a 3.5 hour drive from Mumbai. The site is also at a distance of 45kms from the IT Park at Hinjewadi, Pune.

LAVASA: SHAREHOLDING PATTERN (%)



Source: Company

LAVASA: LOCATION MAP



Source: Company

INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	14,873	19,870	23,576	32,642	44,425
Change (%)	40.6	33.6	18.7	38.5	36.1
Construction Exps.	11,814	16,011	18,370	24,935	33,936
Staff Cost	954	1,314	2,087	2,744	3,550
Office and Site Establish. Exps	546	716	967	1,420	1,538
EBITDA	1,559	1,829	2,153	3,543	5,402
% of Net Sales	10.5	9.2	9.1	10.9	12.2
Depreciation	453	524	797	1,006	1,188
Interest	395	414	620	995	1,272
Other Income	56	461	199	321	6
Share of turnover in JV	-17	31	244	45	80
PBT	750	1,383	1,179	1,909	3,027
Tax	10	135	386	630	999
Rate (%)	13	9.7	32.8	33.0	33.0
Reported PAT	740	1,248	793	1,279	2,028
Extra-ordinary Income (net of e:	82	404	247	318	1
Adjusted PAT	658	844	595	1,066	2,027
Change (%)	84.3	28.3	-29.4	79.0	90.2

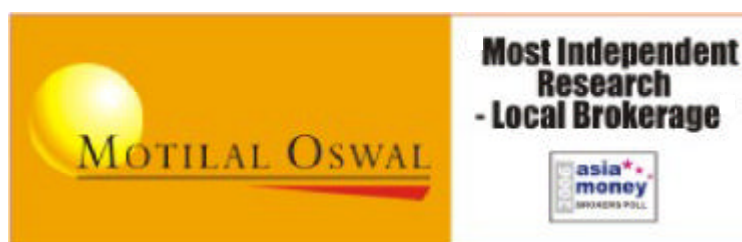
BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	229	256	256	274	274
Reserves	3,300	8,642	8,785	14,212	15,778
Net Worth	3,530	8,898	9,041	14,486	16,052
Loans	4,257	11,959	15,511	11,484	16,296
Deferred Tax Liability	725	677	855	855	855
Capital Employed	8,511	21,535	25,407	26,826	33,203
Gross Fixed Assets	6,208	7,728	11,012	13,775	16,275
Less: Depreciation	2,305	2,807	3,550	4,556	5,744
Net Fixed Assets	3,903	4,921	7,462	9,219	10,531
Capital WIP	478	1,074	1,513	750	750
Investments	1,899	1,265	2,286	5,162	7,162
Curr. Assets	7,721	22,387	23,062	23,514	31,004
Inventory	5,833	10,307	17,386	16,992	23,125
Debtors	31	28	5	7	10
Cash & Bank Balance	875	10,060	2,084	1,591	1,208
Loans & Advances	982	1,991	3,476	4,813	6,550
Other Current Assets	0	1	111	111	111
Current Liab. & Prov.	5,489	8,112	8,916	11,819	16,244
Creditors	4,039	5,910	6,796	9,222	12,552
Other Liabilities	1,167	1,830	1,643	2,000	2,500
Provisions	283	372	477	596	1,193
Net Current Assets	2,232	14,275	14,146	11,695	14,760
Application of Funds	8,511	21,535	25,407	26,826	33,203

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
Adjusted EPS	2.9	3.3	2.1	3.9	7.4
Growth (%)	61.0	14.7	-35.3	82.4	90.2
Cash EPS	4.8	5.3	5.2	7.6	11.7
Book Value	15.4	34.7	35.3	52.8	58.5
DPS	0.6	0.7	0.7	0.9	1.5
Payout (incl. Div. Tax.)	21.2	16.4	28.4	22.8	22.8
Valuation (x)					
P/E (standalone)		35.8	55.4	30.4	16.0
Cash P/E		22.1	22.5	15.6	10.1
EV/EBITDA		17.6	20.3	11.9	8.8
EV/Sales		1.6	1.9	1.3	1.1
Price/Book Value		3.4	3.3	2.2	2.0
Dividend Yield (%)		0.6	0.6	0.8	1.3
Profitability Ratios (%)					
RoE	25.5	13.6	6.1	9.1	13.3
RoCE	15.4	11.8	6.6	10.9	14.1
Turnover Ratios					
Debtors (Days)	1	1	0	0	0
Inventory (Days)	143	189	269	190	190
Creditors. (Days)	125	135	135	135	135
Asset Turnover (x)	2.0	1.3	1.0	1.2	1.5
Leverage Ratio					
Debt/Equity (x)	1.2	1.3	1.7	0.8	1.0

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
PBT before Extraordinary Items	750	1,383	1,179	1,909	3,027
Add : Depreciation	453	524	797	1,006	1,188
Interest	395	414	620	995	1,272
Less : Direct Taxes Paid	10	135	386	630	999
(Inc)/Dec in WC	639	-2,858	-7,847	1,958	-3,448
CF from Operations	2,226	-672	-5,638	5,238	1,040
(Inc)/Dec in FA	-1,139	-2,139	-3,776	-2,000	-2,500
(Pur)/Sale of Investments	-1,413	634	-1,022	-2,876	-2,000
CF from Investments	-2,552	-1,504	-4,798	-4,876	-4,500
(Inc)/Dec in Networth	1,284	4,278	-247	4,458	0
(Inc)/Dec in Debt	61	7,702	3,551	-4,026	4,812
Less : Interest Paid	395	414	620	995	1,272
Dividend Paid	157	205	225	292	462
CF from Fin. Activity	794	11,362	2,460	-855	3,077
Inc/Dec of Cash	468	9,186	-7,976	-493	-383
Add: Beginning Balance	407	875	10,060	2,084	1,591
Closing Balance	875	10,060	2,084	1,591	1,208

E: MOST Estimates



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Hindustan Construction

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.